United Nations Industrial Development Organization

Distr.
LIMITED

ID/WG.209/2
21 May 1979

ENGLISH

Meeting of Senior Experts on Industrial Co-operation between Developing and Socialist Countries

Sofia, Bulgaria, 4 - 9 September 1979

# TRADE CREATING INDUSTRIAL CO-OPERATION BETWEEN DEVELOPING COUNTRIES AND SOCIALIST COUNTRIES OF EASTERN EUROPE*

Prepared by
the secretariat of UNCTAD

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id.79-3864

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## INTRODUCTION

1. This document has been prepared by the UNCTAD secretariat for the Meeting of Senior Experts on Industrial Co-operation between Developing and Socialist Countries convened by UNIDO in co-operation with the Government of Bulgaria.

2. The purpose of the paper is to facilitate the discussion on the ways and means of strengthening long-term industrial co-operation between developing and socialist countries. In accordance with the work area of UNCTAD, the main attention is concentrated, pursuant to the competence of UNCTAD, on industrial co-operation between developing countries and socialist countries of Eastern Europe. The fundamental principles of economic co-operation between these two groups of countries, the main forms of industrial co-operation in various areas, the institutional mechanism of this co-operation between them, have been substantially dealt with in this paper. Particular attention is paid to various new forms of industrial co-operation emerging in recent years, including co-operation on a multilateral basis. Special reference is made to the role of UNCTAD in promoting long-term trade and economic co-operation between socialist countries of Eastern Europe, members of the Council for Mutual Economic Assistance (CMEA), and the developing countries.

3. The UNCTAD secretariat has been permanently dealing with the problems of trade creating industrial co-operation between countries having different economic and social systems. This issue has been a subject of substantive discussion by various UNCTAD bodies, including the Conference and the Trade and Development Board.

4. The UNCTAD secretariat hopes that the discussion at the Meeting between qualified experts from both developing countries and socialist countries of Eastern Europe will contribute to the further promotion of industrial co-operation between the two groups of countries by generating new policy approaches for future activities in this field.

## Chapter I

## GENERAL CHARACTERISTICS OF INDUSTRIAL CO-OPERATION BETWEEN DEVELOPING COUNTRIES AND SOCIALIST COUNTRIES OF EASTERN EUROPE

### Integrated approach to the industrial co-operation

5. Many problems of the world economic development have brought to the fore the need for a more active involvement of countries having different economic and social systems in the restructuring of the present international economic order. The decisions adopted by the sixth and seventh special sessions of the General Assembly, as well as the Charter of Economic Rights and Duties of States, stressed the need to establish a new international economic order which should be based, inter alia, on "co-operation among all States irrespective of their economic and social systems".[1] Further development of trade and economic relations between countries having different economic and social systems, and in particular between developing countries and socialist countries of Eastern Europe, could contribute to a great extent to achieving this important objective.

6. "The evolution of these relations", stressed the Secretary-General of UNCTAD in his report to the fourth session of UNCTAD, "must constitute an important aspect of a new international economic order. It must be seen as an essential part of the need for developing countries to modify the historical patterns of trade and other relationships which have resulted in an excessive dependence on the developed market-economy countries and to take advantage of the growing productive potential of the socialist countries for mutual beneficial exchanges. Trade with the socialist countries of Eastern Europe ... will add new dimensions to the role of the developing countries in the world economy".[2]

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[1] General Assembly resolution 3201 (S-VI), "Declaration on the Establishment of a New International Economic Order".

[2] See, "New directions and new structures for trade and development" (TD/183/Rev.1), paragraph 168.

7. The task of strengthening economic co-operation between developing countries and socialist countries of Eastern Europe, put forward in many resolutions adopted by the United Nations bodies, fully coincides with the economic interests of both these groups of countries. The present economic policy of the socialist countries of Eastern Europe is aimed at saving and concentrating capital investment on most effective output through the intensification of national production results in the need for more active participation of these countries in the international division of labour. The current scientific and technical revolution puts forward in the production process of the socialist countries of Eastern Europe many new problems which may also be more rapidly and effectively solved through international economic co-operation with all countries, including the developing countries.

8. The principal documents of the Council for Mutual Economic Assistance, and particularly "The CMEA Charter" and "Basic Principles of the International Socialist Division of Labour" that form the basis for the CMEA activities in all spheres, attach great importance to the expansion of trade and other forms of economic co-operation between the countries members of the CMEA and the developing countries. Adopted in 1971, the Comprehensive Programme for the further Extension and Improvement of Co-operation and the Development of Social Economic Integration by the CMEA member countries gave a new impetus to the process of development of economic ties of these countries with other states, including the developing countries. The present five-year plans of the socialist countries of Eastern Europe covering the period 1976-1980, provide for the permanent expansion of their economic co-operation with other countries.

9. The main role in economic co-operation between the socialist countries of Eastern Europe and the developing countries is still played by merchandise trade. In the last years trade and economic co-operation between the two groups of countries has been considerably intensified and has become one of the

most dynamic flows of international trade. In the period 1965-1975, the development of trade between both groups of countries has been particularly accelerated, with total turnover growing at an annual compound rate of 16.2 per cent, thus exceeding the rate of increase in socialist countries' trade with the world as a whole (14.9 per cent) and in trade between the socialist countries themselves (13 per cent). The above developments may be attributed to a great extent to trade-generating policy measures adopted in recent years by socialist countries and developing countries which have been increasingly aware, as was noted in Conference resolution 95 (IV) that "still considerable and unutilized opportunities exist for further intensification of trade and economic relations between developing countries and socialist countries of Eastern Europe".3/

10. The analysis of recent developments in economic co-operation between the developing countries and the socialist countries of Eastern Europe reveals that trade among them is being gradually integrated into a more comprehensive system of relations where many new forms of economic co-operation are emerging constantly, with industrial co-operation being one of the major areas of economic relations.

11 While considering the many issues of industrial co-operation between the developing countries and socialist countries of Eastern Europe, this paper covers not only co-operation between the partners in the industrial sector but also includes economic relations in other areas of major importance for the economic performance of many developing countries, including mining, agriculture, infrastructure, etc. It should also be added that the term industrial co-operation in respect of relations between countries from these two groups implies not only such "classical" forms of this co-operation as subcontracting, specialization and

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3/ Conference resolution 95 (IV).

co-production, but other forms of co-operation as well, including those under which the mutual co-operation is carried out with assistance rendered by the socialist countries of Eastern Europe to the developing countries.

12. The industrial co-operation among the developing countries and the socialist countries of Eastern Europe differs from that among developed market-economy countries, particularly in the framework of East-West trade and this difference results from the still existing gap in the levels of economic and technological development between the partners.4/

13. The achieved levels of economic and technological development both in the developing countries and the socialist countries of Eastern Europe, determine the principal approaches of these two groups of countries and of individual countries within each group towards the objectives, patterns and main directions of industrial co-operation with partners from the other group.

14. It seems that the main interests of the socialist countrees of Eastern Europe, while entering into industrial co-operation with the developing countries, are determined by their general policy aimed at fuller and more effective use of the international division of labour through economic complementarity. The exploitation of complementarity advantages, makes it possible to achieve greater efficiency of production through the rise in labour productivity and through the reduction in input costs per unit of output by spreading the cost over a larger volume of production. Moreover, the industrial co-operation linking the partners for long periods of time, facilitates the implementation by the socialist countries of Eastern Europe of their long-term plans by ensuring stable deliveries of manufactures, semi-manufactures and also industrial raw materials resulting from co-operation deals with the developing countries.

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4/ See, "Industrial co-operation in trade between socialist countries of Eastern Europe and developing countries" (TD/B/350).

15. In addition to these factors making the development of industrial co-operation attractive to the socialist countries, there might also be specific purposes pursued by individual socialist countries of Eastern Europe. For instance, in the case of Bulgaria there are some additional conditions which favour industrial co-operation of this country with other states, and particularly the fast development of the country, its transformation from a backward agrarian country into an industrialized country and its growing participation in economic integration schemes within the CMEA; the emergence in its major economic branches of a small number of large economic units able to solve the problems of modern production; the favourable geographic situation, skilled labour, etc.5/

16. The main objective which the developing countries have in view while entering into industrial co-operation with the socialist countries of Eastern Europe is, in the majority of cases, an increase in the industrial capacity and technological level of enterprises, an acceleration of the rates of economic growth, diversification and improvement of their economic and export structure. For the developing countries, industrial co-operation with the socialist countries of Eastern Europe is one of the ways of expanding their exports of different commodities, including manufactures, semi-manufactures and raw materials, as well as assuring various goods needed for achieving their economic goals related to industrialization. In fact, industrial co-operation between the socialist countries of Eastern Europe and the developing countries is recognized by the latter as one of the major instruments for their industrialization.

17 The further development of industrial co-operation with the socialist countries of Eastern Europe may be regarded as an effective safeguard against the possible damages which may be caused to the economies of the developing

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5/ See, "Industrial co-operation of Bulgaria with countries having different economic and social systems" (UNCTAD/TSC/23).

countries by the fluctuations of the world market. The practice shows that the socialist countries of Eastern Europe usually wish to secure long-standing and stable foreign inputs, owing to the fact that their development is governed by a central plan and not by market forces, so that durability of relations and reliability of deliveries is an essential part of their approach towards industrial co-operation with other countries including the developing countries.

18. Giving a general characteristic to the climate existing in economic relations between the developing countries and socialist countries of Eastern Europe which influences the further development of these relations, including industrial co-operation, it could be noted that in various documents and statements made by the representatives of the socialist countries of Eastern Europe it is stressed that when entering into economic relations with the developing countries, these countries ——————————————————————

attempt to found these relations on the principles of equality, respect for sovereignty, mutual advantage, non-interference in internal affairs, and support for the developing countries' efforts to overcome their backwardness.6/

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6/ "Joint Statement" made by several socialist countries at the fourth session of UNCTAD (TD/211).

## Chapter II

## FORMS AND AREAS OF INDUSTRIAL CO-OPERATION BETWEEN DEVELOPING COUNTRIES AND SOCIALIST COUNTRIES OF EASTERN EUROPE

### The main forms of industrial co-operation

19. Any formal classification of the forms of industrial co-operation between the developing countries and socialist countries of Eastern Europe is bound to be arbitrary because the different components that can be identified tend to be interlinked. For the purpose of research, in various materials prepared by the UNCTAD secretariat and by other United Nations bodies (the Economic Commission for Europe), it was found convenient to spell out several general forms of industrial co-operation. The practice of industrial co-operation particularly among socialist countries of Eastern Europe and developed market-economy countries clearly demonstrates that it progressively evolves from the simple form of purchase-sale transactions involving technology and capital equipment to more complex forms. This is also applicable to industrial co-operation between socialist countries of Eastern Europe and developing countries, in which the following main forms may be specified: supply of capital equipment and related services; co-production and specialization; sub-contracting; joint ventures and projects.

20. Industrial co-operation in the form of supply of capital equipment and related services is closely interconnected with technical assistance rendered and the growing exports of capital goods and technology from socialist countries of Eastern Europe to developing countries. The research work undertaken by the UNCTAD secretariat has revealed that because of the limited possibilities of starting the manufacture of new products in a developing country entirely on the basis of home-produced inputs the local firms tend to rely for a time on the regular, co-ordinated supply of some items (especially "research-intensive") from

the socialist partners, and such arrangements form nowadays an integral part in numerous ventures designed to introduce modern technology or to establish new industries in developing countries. The practice followed regarding deliveries for supporting the newly-established industries varies widely according to the industries and countries concerned, the technological and marketing position of the partners, their own intentions, etc. The bulk of the deliveries are effected within the framework of licensing agreements or other arrangements providing for the transfer of technology, in cases where the socialist enterprise undertakes to supply its partner (customer, licensee) in a developing country, over and above the technology transferred, with an agreed range and quantity of components (as a rule, the most sophisticated ones and those still unavailable on the spot) to be incorporated into the new products, and this understanding usually remains in force until such time as the partner enterprise can begin its own production.7/ In many cases partners prefer to continue these deliveries beyond the end of the initial production stage, thus transforming this form of co-operation into co-production, under which the partners from the two countries integrate in agreed proportions their efforts with a view to joint production. This form of co-operation is more sophisticated and is being practiced more and more often.

2/. One of the promising forms of industrial co-operation between developing countries and socialist countries of Eastern Europe is sub-contracting, under which the partners, both developing countries and socialist countries of Eastern Europe, deliver to each other components and semi-manufactures needed for the final production on a sub-contracting basis. In this case when components are delivered from the socialist countries of Eastern Europe they often have as a point of destination industrial enterprises built in developing countries with the

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7/ "Industrial co-operation in trade between socialist countries of Eastern Europe and the developing countries" (TD/B/550).

technical assistance of the former. This form of co-operation, which is practiced as a rule on the side of the developing countries by those countries which have reached a relatively high level of industrial development and in proportion to the total number of industrial co-operation deals between the two groups of countries, takes a rather modest place. Nevertheless sub-contracting is regarded by both developing countries and socialist countries of Eastern Europe as an important means of establishing further economic complementarity between them, aimed at increasing the efficiency of their national economies.

22. The expansion and diversification of co-production and sub-contracting may form the necessary basis for establishing between the co-operating partners from developing countries and socialist countries of Eastern Europe long-term production sharing, or specialization, when the partners concerned share their manufacturing process in product assortments (with the further exchange of specialized products) or by progressive technological stages. This specialization, leading to a high degree of technological integration of the partners, allows a sufficient economy in cost resulting from the mass production and at the same time it stimulates the international trade including new commodities into it.

23. As for joint ventures, this form of industrial co-operation differs from all other above-mentioned forms as it involves co-management, co-ownership of capital and sharing of profits and risks. Joint ventures have as a rule a form of private share companies. As has been analyzed in previous UNCTAD papers, this form may sometimes be the most beneficial way, in view of the provisions of local law or of the need to single out a particular sector in mutual business relations.

24. The above classification of industrial co-operation outlines only the main directions prevailing in this field.

———————— It would also be possible to sub-divide each form of co-operation into more specific ones but this task would go beyond the purposes of this paper, moreoever this work has already been done in many other studies prepared by UNCTAD and other United Nations bodies.8/

25. Although when entering into industrial co-operation the developing countries and the socialist countries of Eastern Europe are principally practicing the same forms of industrial co-operation as exist in East-West economic relations, the relative importance of various forms of this co-operation are not quite identical to those in East-West relations. The inventory of existing cases of industrial co-operation deals among developing countries and socialist countries of Eastern Europe reveals that the most widespread form of co-operation is when partners from the socialist countries of Eastern Europe supply the developing countries with capital equipment, including complete plants with payments in resultant products. Moreover, the latest deals between developing countries and socialist countries of Eastern Europe which have been reported in recent years clearly confirm this tendency.

26. A specific feature of recent industrial co-operation deals between developing countries and socialist countries of Eastern Europe is that of providing a continuation of established links between enterprises of respective countries for many years - up to the 21st century. The partners concerned are contributing to the creation by this means of a basis for production complementarity.

Areas of co-operation

27. At the present stage of economic relations, the main areas of industrial co-operation between developing countries and socialist countries of Eastern Europe are the production of minerals, fuels and electric power in the developing countries. Practice shows that the problem of exploitation of domestic mineral resources in the developing countries, which require huge investments and substantial

8/ See, for example, "Analytical report on industrial co-operation among ECE countries" (E/ECE/844/Rev.1).

technical knowledge, may be more easily and quickly solved on the basis of international co-operation with the rational utilization of financial, technical and labour resources available in the developing countries and with the help of credits, technical assistance and experience obtained by the socialist countries of Eastern Europe. The co-operation with the socialist countries of Eastern Europe makes it easier for the developing countries to exploit their natural resources, including different stages of this process and particularly estimating reserves of minerals, prospecting and extraction. Further, the socialist countries of Eastern Europe render assistance to the developing countries in effective utilization of locally produced minerals and fuels by way of the construction of processing capacities, thus contributing to the complex solution of the problems of economic development of the third world countries.

28. The practice of recent years gives many examples when the joint efforts of the socialist countries of Eastern Europe and the developing countries have resulted in the successful solution of the task aimed at the exploitation and utilization of natural resources in the developing countries on a complex basis. For instance, with the assistance of CMEA countries considerable phosphorite deposits were prospected in the Syrian Arab Republic and on their basis the country's first national mining complex was built and put into operation. In 1972 a large oil field equipped with Soviet assistance went into operation in North Rumaila. It was the first large national enterprise of this kind. By the middle of 1974, its output had been brought up to 18 million tons and it is planned to boost it further - to an eventual 40-50 million tons a year. In 1974, an oil refinery with an output of 3.5 million tons was completed in Basra. Built with Czechoslovak assistance, it is one of the largest oil refineries in the Middle East. The agreements on economic and technical co-operation between the CMEA countries and Iraq provide for further assistance in the development of its oil industry, including the building of oil refineries and oil pipelines, the conducting of drilling operations, and the delivery of equipment. One of the most

recent examples of co-operation of this kind is a long-term agreement, reached between the USSR and Morocco in 1977 which established co-operation on a compensatory and balanced basis in the development of the phosphate deposits in the latter country. The project foreseen in this agreement is evaluated at $ 2 billion and will include geological prospecting, drawing up of the feasibility report, research work for all co-operation projects, actual construction and assembly work in the mining and construction units, installation of the necessary infrastructure, etc.

29. With the successful development of industrial co-operation between the partners from the two groups of countries in the field of mining and fuel industries, the greater impetus is spent in acquiring co-operation in other more sophisticated branches and particularly in electric power production, in metallurgy, in engineering, in the chemical industry and other branches.

30. For a relatively short period of time some 650 power engineering and electricity generating projects have been, or are being completed in the developing countries in co-operation with the CMEA countries. For instance, Bulgaria helped Lebanon to erect power transmission lines. Some of the power stations in India, Turkey, Egypt and Lebanon were built with Hungary's assistance. The German Democratic Republic assisted Egypt in the building of a large power station in Damanhur and the construction of two power transmission lines; Poland rendered assistance to India in the building of a power station in Baranni; Romania participated in the construction of a central heating plant in India; Czechoslovakia provided assistance or is at present helping in the building of power stations in Afghanistan, India, Brazil, Iraq, Iran, the Syrian Arab Republic, Nigeria. In many cases these industrial plants, erected in co-operation with the socialist countries of Eastern Europe, provide for the production of a major share of the electrical energy consumed by the developing countries. Thus, the Aswan hydro-electrical complex built with Soviet assistance, supplies more than half of the electricity generated in Egypt.

31. An important field of co-operation between the developing countries and the socialist countries of Eastern Europe is the metallurgical industry, where about 50 enterprises have been, or are being built in the developing countries. In co-operation with the CMEA countries, a number of iron and steel plants have been erected or are under construction in India, Algeria, Turkey, Iran, Pakistan and Nigeria. The output of these plants amounts to more than 30 million tons of steel a year. Many arrangements, under which the mentioned objects have been constructed, provide for payment of the technical assistance of the socialist countries of Eastern Europe in the resultant products, i.e. in deliveries of steel, alumina, etc.

32. A fast spreading area of industrial co-operation between developing countries and socialist countries of Eastern Europe is the engineering industry. It is in this field that the most sophisticated forms of industrial co-operation are developing and particularly co-production and subcontracting, though co-operation may be established on the basis of deliveries of capital equipment and technological know-how as well as with possible payments for these deliveries from the socialist countries of Eastern Europe in resultant products, or by products produced by other enterprises of the developing countries. One of the most representative examples of the industrial co-operation in this field is the assembly of Ikarus buses in Iraq. Under this project Hungary supplied Iraq with part of the machinery necessary for the production of a certain range of components. Some other components are supplied by Sweden. Later on this co-operation will be further developed so that Iraq can switch over from merely the assembly to the sull-scale production of buses. Negotiations on similar co-operation with Hungary are now in progress with some Latin American countries. Several years ago an assembly of tractors in India was established in co-operation with Polish enterprises. At the initial stage of this project almost all components were supplied to India from Poland, whereas at the present time only some details for tractor production are being delivered from the latter in exchange

for some other locally produced goods. Bulgaria is successfully co-operating with a number of developing countries in the production of machine-tools, electrical equipment, autocars, etc.

33. Of great importance to the developing countries is the development of domestic production of consumer goods, particularly textiles, footwear, foodstuffs, etc., which results in the decrease in their demand for these commodities from overseas' sources and in the achievement of a higher level of self production in these areas. Up to now projects under construction in the developing countries with the assistance of the socialist countries of Eastern Europe or that have already been completed, number more than 600 in light industry, in the food industry and in processing industries. An important feature of these projects is that, as a rule, they do not require large capital investments, which means that outlays are soon recouped. In this way, within a short space of time, developing countries are able to meet the requirements of their domestic market, raise their economic strength and increase their export potential. In addition to the mentioned areas there are also numerous projects of co-operation in other fields, particularly in transport, agriculture, etc.

34. Altogether by now there are more than four thousand industrial, agricultural and other development projects which have been built or are in the process of construction in the developing countries, in co-operation and with the technical assistance of the socialist countries of Eastern Europe. It was reported that by mid-1978 about 2,900 of these projects had already been put into operation.9/

35 Concerning the geographical distribution of industrial co-operation of the socialist countries of Eastern Europe with the developing countries, it may be stated that this co-operation involves about 80 developing countries. The most

9/ See, "Report of the Trade and Development Board on its eighteenth session" (TD/B/728), paragraph 121.

active partners of the socialist countries of Eastern Europe in industrial co-operation deals among the developing countries are India, Afghanistan, Iraq, Iran, Algeria, Egypt, Nigeria, Mexico and Brazil. It is understood that while not all developing countries have reached a high level of industrial co-operation and development, some of these countries enjoy relatively sophisticated forms of industrial co-operation with the socialist countries of Eastern Europe, particularly co-production and subcontracting. Others are still at the initial stage of this process, enjoying more simple forms of co-operation, such as delivery of capital equipment with possible payment in resultant products.

36. As for individual socialist countries of Eastern Europe, they concentrate their efforts on the development of industrial co-operation with a number of developing countries in certain areas. Thus, Bulgaria specializes in co-operation relating to mining, agriculture, electrical equipment, woodworking; Czechoslovakia - transport equipment, agricultural machinery, chemicals and rubber products, industrial construction, light industry; the German Democratic Republic - machinery, metalworking, instruments, telecommunications, chemicals; Hungary - electrical machinery, transport equipment, mining equipment, pharmaceuticals, telecommunications, agricultural machinery; Poland - machinery, transport equipment, chemicals; Romania - development of mineral resources, petrochemicals, agricultural machinery. The scope of industrial co-operation with the developing countries by the USSR comprises a greater number of countries and areas, but the majority of its co-operation deals with the developing countries are concentrated on mining, ferrous and non-ferrous metallurgy, heavy machinery, including power equipment, building industry, agriculture, etc. At the same time, it should be noted that the specialization of some countries in a few branches does not prevent partners from the socialist countries from searching for new opportunities in other non-traditional areas.

37. It is important to underline that many co-operation projects established or being constructed in the developing countries with the assistance of the socialist countries of Eastern Europe are concentrated in a state sector of the former

countries, the development of which contributes to the strengthening of the economic independence of these countries and makes their position stronger vis-à-vis the transnational corporations.

The legal framework and institutional machinery

38. Although industrial co-operation is primarily co-operation between enterprises, government intervention has played an important role in its development, both because of the generally significant role of governments in promoting trade and economic relations between the two groups of countries, and because of the degree of governmental engagement in the process of industrial development on either side. Governments have incluenced and promoted industrial co-operation by the means of concluding agreements on economic and technical co-operation, long-term trade agreements and other arrangements which have created favourable conditions for further contacts between enterprises. By 1978 the socialist countries of Eastern Europe had established co-operation arrangements with about 80 developing countries, of which 25 in Asia, 34 in Africa and 19 in Latin America.10/

39. The intergovernmental agreements between the developing countries and socialist countries of Eastern Europe are being implemented through contracts and agreements between various organizations and enterprises in partner countries. There is a definite trend for these agreements and contracts to grow, testifying that links are becoming more intensive and more varied. The number of different agreements involving economic, scientific and technical co-operation between the socialist countries of Eastern Europe and the developing countries concluded in 1976 alone amounted to 260 (compared to about 180 in 1974).11/ In 1977/78 many new agreements of this kind were concluded.

40. Intergovernmental agreements on economic, technical and industrial co-operation provide for steady progress in different areas of co-operation, including industrial co-operation and facilitate economic planning and the creation of a stable market for the products of the developing countries' national industries.

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10/ See, "Co-operation mechanism among countries having different economic and social systems" (TD/243/Supp.3).

11/ See, "Review of trends and policies in trade among countries having different economic and social systems" (TD/B/656), paragraph 42.

These agreements have proved to be an effective catalytic instrument in the negotiation of inter-enterprise industrial co-operation contracts. As far as a partner from a developing country applying market mechanisms is concerned, an intergovernmental economic agreement is designed to create favourable conditions for enterprises which are willing to co-operate with the socialist countries.

41. In the socialist countries of Eastern Europe, intergovernmental economic co-operation agreements are an instrumental factor in the effective creation of appropriate industrial co-operation opportunities at the level of foreign trade organizations and enterprises; moreover, the very existence of such agreements makes it easier to incorporate the substantive provisions of inter-enterprise contracts into national economic plans. The comparatively small size on average of industrial enterprises in the developing countries is a further argument for the importance of the strengthening or development of an appropriate institutional infrastructure for the promotion of industrial co-operation between the developing and the socialist countries.

42. There are several types of bilateral agreements covering areas of industrial co-operation practiced in relations between the two groups of countries. Firstly, these are generally intergovernmental agreements which set up the major principles of co-operation and indicate the main fields of such co-operation. In many cases these agreements are concluded for long-term periods - up to 10 and even 15 years. Further to these agreements, the partner countries might work out long-standing programmes of economic, industrial and technical co-operation containing more detailed provisions and areas for further co-operation. For example, the 15-year Programme of long-standing economic co-operation between Iran and the USSR was signed in 1976. In 1979 India and the USSR also signed a long-term programme of economic, trade and scientific and technical co-operation for 10-15 years, which provides for mutual co-operation between the two countries in the construction of many industrial enterprises in various fields of India's economy. In addition to general intergovernmental agreements, the partner countries conclude special agreements and protocols concerning more specific questions of industrial co-operation.

**43. The majority of the socialist countries of Eastern Europe have introduced in recent years new elements to the system of the economic mechanisms of the respective countries.**

The new legislation has been adopted in a number of countries, particularly in Hungary and Poland with respect to international economic relations, including industrial co-operation. This new legislation has enabled certain enterprises of the socialist countries of Eastern Europe to conclude direct agreements with the enterprises in other countries on the questions pertaining to industrial co-operation which could facilitate the further development of such co-operation between them and the developing countries.

44 Many intergovernmental co-operation agreements between the developing countries and the socialist countries of Eastern Europe, particularly those concluded in recent years, provide for setting up a bilateral mechanism with a view to enabling the partners concerned to consider on a regular basis the most important issues of mutual trade and economic co-operation. In practical terms this aim is reached by setting up mixed intergovernmental commissions which serve as high-level fora for exploring and discussing various key problems of economic co-operation and, consequently, for drawing up recommendations for respective governments. Owing to their high-level representation, these commissions are usually able to deal with problems in a comprehensive manner, taking into account the inter-relationship.[12/]

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12/ For more information on this subject see "The role of Mixed Intergovernmental Commissions in trade relations among countries having different economic and social systems" (TD/B/452).

The role of credits in industrial co-operation.

45. A considerable role in the development of industrial co-operation is played by credits granted by the socialist countries of Eastern Europe to the developing countries. The use of credits for the establishment of large industrial objects enables the developing countries to initiate local production in new areas and consequently to slow the increase of hard currency imports of many goods and, on the other hand, to get new commodities, including manufactured goods, designed for export.

46. The extension of credits by the socialist countries of Eastern Europe to the developing countries is, as a rule, stipulated by the provisions of different intergovernmental agreements, particularly those on economic, technical and industrial co-operation, as well as by special credit agreements. Credits extended by the socialist countries of Eastern Europe to the developing countries are, as a rule, in the form of state credits, though credits granted by the organizations and enterprises of the socialist countries of Eastern Europe are also often practised in economic co-operation between the partners from the two groups of countries. The experience gained in this field reveals that the socialist countries of Eastern Europe extend their credits for a term of 8-12 years and in special cases even for longer periods. The interest rate on state credits granted by the socialist countries of Eastern Europe to the developing countries is usually 2.5 per cent. The terms of the credits and loans of the socialist countries of Eastern Europe do not require repayments to commence until all equipment has been delivered, or even until a project has been completed and put into operation - that is, when it starts to bring in a return.

47. It may be noted that industrial products constructed in the developing countries with the assistance of the socialist countries of Eastern Europe become the sole property of the developing country. There is no outflow of capital from the developing countries in the form of profits as is the case when these countries obtain financial resources on the market of private capital.

48. Among the socialist countries of Eastern Europe, the leading role in extending credits to the developing countries is played by the USSR. About 1,000 industrial enterprises and other objects have been or are being constructed in the developing countries with the technical and financial assistance of the USSR. In recent years the amount of credits granted by the socialist countries of Eastern Europe to the developing countries has had a tendency towards a more rapid growth. For instance, during the period 1971-1975 Bulgaria extended to 15 developing countries twice as many credits as in 1960-1970.

Transfer of technology and training of personnel

49. The development of industrial co-operation between the two groups of countries, accompanied by a considerable flow of sophisticated equipment from the socialist countries of Eastern Europe to the developing countries, also contains many elements of transfer of technology to the developing countries. Leaving apart special agreements on scientific and technical co-operation between many partners from both groups of countries, the agreements on economic, technical and industrial co-operation covering the co-operation in the considered field as well as inter-enterprise contracts also creates many possibilities for transfer of technology to the developing countries and training local personnel.

50. The major part of technology transferred from the socialist countries of Eastern Europe to the developing countries is embodied in a wide variety of goods delivered to the latter in connexion with the implementation of industrial co-operation deals and particularly in machines, equipment and complete industrial plants. At the same time, the development of many forms of industrial co-operation, for instance joint construction in the developing countries of industrial enterprises, co-production and in certain cases sub-contracting incorporate an acquisition by the developing countries of licences and know-how which constitute important elements of technology transfer to these countries. The same target is achieved in the process of preparation in the developing countries by the socialist countries of Eastern Europe of design studies and consulting engineering services which form the initial stage in the implementation of industrial co-operation projects.

51. It is worth mentioning that a number of intergovernmental agreements and inter-enterprise contracts concluded between the socialist countries of Eastern Europe and the developing countries contain provisions for the free transfer of technological data, particularly to the developing countries with low economic and technical levels. For instance, the USSR does not usually charge the developing countries for new technological solutions and innovations or technical documents necessary for organising production of goods transferred in connexion with building new industrial and other projects with USSR assistance.[13/]

52. One of the major aspects of industrial co-operation between the developing countries and the socialist countries of Eastern Europe is the technical assistance rendered to the former in the field of training local personnel. Experience shows that there are various ways of training the skilled workers in the developing countries in the course of the implementation of industrial co-operation projects.

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13/ "The experience of socialist countries of Eastern Europe in the transfer of technology to developing countries" (TD/B/C.6/25), paragraph 143.

Thus, the training of local labour by specialists from the socialist countries of Eastern Europe is carried out in the course of the construction, assembly and subsequent operation of enterprises set up with the assistance of the socialist countries. In addition, continuous courses for training workers and raising their qualifications have been organized with the help of specialists from the socialist countries of Eastern Europe on the construction sites of numerous projects being built with co-operative effort.14/ Altogether more than 600,000 citizens of the developing countries were trained during the building and exploitation of industrial and other enterprises with the help of the socialist countries of Eastern Europe, and what is very important from the point of view of the economic interests of the developing countries, there is no problem of "brain drain" from the developing countries to the socialist countries of Eastern Europe.

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14/ V. Berezin - Co-operation between CMEA and developing countries, Moscow 1976.

## Chapter III

### THE IMPACT ON TRADE OF INDUSTRIAL CO-OPERATION BETWEEN DEVELOPING COUNTRIES AND SOCIALIST COUNTRIES OF EASTERN EUROPE

53. The intensified industrial co-operation between the developing countries and socialist countries of Eastern Europe, both in terms of quantity of partners involved and from the point of view of diversifying industrial co-operation deals, creates the sound foundation for the further development of trade between the participants.

54. It could be stated that any kind of industrial co-operation results in promoting trade flows among the developing countries and the socialist countries of Eastern Europe, since in natural terms this co-operation inevitably takes the form of deliveries of a great variety of goods in both directions. The implementation of industrial co-operation deals represents first of all the sale of different equipment and machinery, component parts, etc. from the socialist countries of Eastern Europe to the developing countries. This process also activates the nonmerchandise exports from the socialist countries of Eastern Europe in the form of sales of licences, know-how and rendering appropriate services to the developing countries. Moreover, after the first stage of implementation of industrial co-operation projects, particularly in cases when such co-operation takes the form of supply of equipment and complete plants from the socialist countries of Eastern Europe, in order to secure the smooth and efficient operation of newly established projects, there is a necessity for a partner from a socialist country of Eastern Europe to provide the continuous supply for this project of materials, spare parts, etc.

55. After the completion of a project constructed in a developing country with the assistance of a socialist countries of Eastern Europe, one can speak about the termination of the "first stage" of an industrial co-operation deal. The "second stage", which may last for a longer period presupposes the diverse process of deliveries of goods from developing countries to socialist countries of Eastern Europe as payment for assistance which had been rendered to a developing country while implementing a specific project. In many cases this trade flow consits of resultant products being produced by the industrial enterprise established with the assistance of a socialist country of Eastern Europe. This form of settlement of the obligation of a developing country resulting from the implementation of co-operation projects is referred to as compensatory arrangements, which in recent years has been practiced with increasing speed. One of the most impressive examples of co-operation on this basis is the exploitation of bauxite deposits in Guinea, initiated with the technical and financial assistance of several socialist countries of Eastern Europe. After the mining capacities were put into operation, Guinea began to export annually large quantities of bauxite, particularly to the USSR, thus paying for assistance received from the socialist countries.

56. This example gives an idea of the direct impact of industrial co-operation on the promotion of exports from developing countries to socialist countries of Eastern Europe. However, it should be underlined that after the full repayment of credits received from the socialist countries of Eastern Europe the developing country often continues to export a sound proportion of new products to the markets of the socialist countries of Eastern Europe. In many cases these prolonged deliveries are stipulated in intergovernmental agreements on economic and industrial co-operation and in special protocols which gives to these deliveries a stable and long-standing basis and enables both the partners to incorporate them in their national ————————————

economic plans. This possibility of additional trade is of considerable importance for both the developing countries and the socialist countries of Eastern Europe, since the former secure a stable and increasing market able to absorb a great share of their production, and the latter obtain an opportunity to receive needed goods under conditions of scarcity of specific commodities on the world market.

57. In this case of special interest is the question of prices for goods to be delivered to the socialist countries of Eastern Europe over long periods of time. As has been analyzed in previous UNCTAD papers[15] stability in the development of industrial co-operation and in the resulting exchange of goods does not inevitably entail fixed prices. The prices for the goods to be delivered from the developing countries to the socialist countries of Eastern Europe under long-term agreements are subject to permanent adjustment in accordance with price fluctuations on the world market. This practice insures both the developing countries and the socialist countries of Eastern Europe against possible financial losses under the arrangements according to which repayment starts long after the credit has been received.

58. In addition to a substantial direct impact which the industrial co-operation with the socialist countries of Eastern Europe has on the export performance of the developing countries, this co-operation influences the export possibilities of the developing countries in many indirect ways. The industrial co-operation of the developing countries in general and particularly that carried out with the socialist countries of Eastern Europe results in the increasing economic potential of developing countries and consequently has a considerable long-term trade generating effect. The developing countries acquire additional export resources not only through

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15/ See, "Motivations, patterns, problems and prospects in industrial co-operation between enterprises of socialist and developing countries" (TD/B/490/Supp.1).

increased output of enterprises set up with the assistance of the socialist countries of Eastern Europe, but also through the resulting effect of these enterprises on other sectors of their national economy. For instance, the development of the Indian steel industry, in co-operation with the socialist countries of Eastern Europe made it possible for this country to export steel products to the third countries. At the same time, the growing steel output creates the necessary prerequisites for a more rapid development of many other branches of industry, particularly in the engineering sector and for the production of a great variety of new goods needed for local consumption as well as for export to overseas markets.

59. Although industrial co-operation deals involving supply to developing countries of machinery and complete equipment are concentrated mainly in such fields as mining, metallurgy, power production, etc. with the resultant product representing mainly raw materials and semi-manufactures, there are also examples when such co-operation involves the production of more sophisticated manufactured products. For example, the heavy equipment plant was built in India with the assistance of the USSR, the production of which is now exported to some socialist countries of Eastern Europe and developing c untries. As for industrial co-operation in the forms of co-production and specialization, sub-contracting and joint ventures, it is concentrated as a rule in the production of manufactured goods. Moreover, the very modalities of co-operation in the form of sub-contracting implies regular deliveries of different components representing goods with a high degree of processing from the developing countries which in the majority of cases

play the role of sub-contractors in the production of final items located in the socialist countries of Eastern Europe. As for the co-operation among the developing countries and the socialist countries of Eastern Europe in the form of co-production and joint ventures, in these cases the production process as a rule is located in the developing countries with the resultant products destined to meet the demand of the local market, and to be exported both to the socialist countries of Eastern Europe and to the third countries. So it is evident that through participation in all forms of industrial co-operation the developing countries obtain additional opportunities for entering new markets with relatively untraditional exports, including manufactures and semi-manufactures.

60 The quantitative analysis of the direct impact of industrial co-operation activity involving the partners from the developing countries and the socialist countries of Eastern Europe on the export performance of the former is rather complicated since neither the developing countries nor the socialist countries of Eastern Europe specify in their export statistics deliveries of goods resulting from industrial co-operation. As a result of this shortfall in adequate registration of trade flows it may even happen that the rise in industrial co-operation activity among two partners from both groups of countries would not be reflected while calculation of total results of their mutual trade because of a possible fall in trade of other goods. Nevertheless the analysis of exports of the developing countries to the socialist countries of Eastern Europe reveals that the export of manufactures and semi-manufactures from the developing countries actively participating in industrial co-operation with the socialist countries of Eastern Europe on the markets of the latter has tended to grow in recent years, which may be regarded to a high degree as implication of implementation of industrial co-operation deals.

61. Of special importance for the export capabilities of the developing countries are large scale industrial co-operation contracts being practiced in recent years in relations between the developing countries and the socialist countries of Eastern Europe. These contracts have a considerable direct trade generating effect at all stages of their implementation. A very characteristic example of this kind of contract is the above-mentioned phosphate deal between Morocco and the USSR. The long-standing agreement between the two countries on economic and technical co-operation in the field of phosphates and a number of protocols pertaining to the same subject signed in 1978, stipulated that Morocco will export to the USSR phosphates in yearly increasing quantities, while the USSR will deliver to Morocco essentially crude oil, wood and chemical products. In addition to raw phosphates, the USSR will also buy from Morocco superphosphate and phosphoric acid as well as a large proportion of the Moroccan citrus crop. The duration of the agreement is 30 years and it has been calculated that over this period the total value of the trade could be as much as $10 billion, although the actual price will be subject to renegotiation each year according to world market levels. This contract is of particular importance for the future export performance of Morocco since phosphates make up about one-third of this country's exports.

62. The fact that industrial co-operation between the developing countries and the socialist countries of Eastern Europe is concentrated in key branches results in the establishment of production of many vital items to be consumed by the domestic market of the developing countries, which previously used to be imported. Although industrial co-operation with the socialist countries of Eastern Europe is by no means only an instrument of import substitution policy for the

developing countries, this phenomenon has a positive influence on their balance of payments position. This contribution to the improvement of the balance of payments / of the developing countries becomes even greater because in implementing many industrial co-operation projects in areas of co-production and joint ventures, the partners pursue the policy under which the production based initially on deliveries of certain components from the socialist countries of Eastern Europe gradually begin to utilize those produced in the developing countries. This process is accompanied by the decrease in the share of components being imported from the socialist partner. For example, during the initial stages of the assembly of the Bulgarian designed tractor in India, the local partner was ready to supply for this production only some simple parts such as fuel tanks, handles and saddles, but since then the share of local parts in the completed products has increased steadily.

63. Particular attention is paid by the partners from the developing countries and the socialist countries of Eastern Europe participating in industrial co-operation to marketing of the resultant products, especially in cases of co-production and joint ventures. With a view to providing adequate measures aimed at the marketing of these products, the partners often include into their industrial co-operation agreements special arrangements concerning joint marketing activities. As a rule these arrangements stipulate co-ordination in marketing and the establishment of an adequate after-sales service network. Beginning with joint efforts in the domestic markets, such marketing arrangements then go far beyond national borders. These joint efforts in marketing are of particular importance to the developing countries when entering the competitive, protected markets, sheltered in certain cases by anti-import measures. The possibility of using the established marketing network of the socialist countries of Eastern Europe, including spare-part stores, repair centres and workshops for maintenance contributes to the export activity of the developing countries and at the same time it reduces the cost of marketing. The same end is served

when the export products of the developing countries bear the widely recognized trademark of the socialist licenser.

64. The question of trade generating effects on industrial co-operation is closely interrelated with a treatment applied by the partners from both the groups of countries to each other in respect of deliveries of goods resulting from the implementation of industrial co-operation arrangements. In the socialist countries of Eastern Europe imports originating from the developing countries, including those resulting from industrial co-operation activity are free from any restrictions, customs duties or taxes. It seems that the development of trade creating industrial co-operation would be facilitated if the partners from the developing countries also applied the same treatment to the import of goods and materials from the socialist countries of Eastern Europe, carried out in connexion with this co-operation and destined for the use aimed at industrial development of the developing countries. In various UNCTAD documents some specific measures have been proposed in this respect and particularly the introduction of customs tariff waivers (duty-free quotas) or duty reductions granted on imports used in connexion with industrial co-operation contracts, as well as suitable provisions for the temporary admission of goods. Trade flows resulting from industrial co-operation should be free from **quantitative restrictions. Trade policy treatment for goods covered by industrial co-operation** contracts should also be extended to the application of appropriate administrative facilities, such as the reduction of customs formalities and the simplification of trade documentation. Special tax concessions and accelerated depreciation schedules for investment by local enterprises or joint ventures would constitute additional international industrial co-operation incentives.16/

16/ See TD/B/490/Supp.1, op. cit.

## Chapter IV

## NEW FEATURES AND PROSPECTS OF INDUSTRIAL CO-OPERATION AMONG DEVELOPING COUNTRIES AND THE SOCIALIST COUNTRIES OF EASTERN EUROPE

65. In recent years the industrial co-operation of the socialist countries of Eastern Europe with the developing countries, particularly with those which have achieved a certain level of industrialization, has acquired a number of new features characterized by a more comprehensive approach to this co-operation on the side of the partners from both groups of countries. One of the most characteristic sides of this new approach is represented by the willingness and readiness of the partners to develop industrial co-operation on a multilateral basis.

66. The multilateral approach to industrial co-operation among the developing countries and the socialist countries of Eastern Europe is emerging as a consequence of the economic development of both the groups of countries. The evolving process of economic integration of the socialist countries of Eastern Europe within the CMEA also creates certain possibilities for industrial co-operation with the developing countries on a multilateral basis. As this process has been developing, notably with the implementation of the Comprehensive Programme for Socialist Economic Integration, the partners both in developing countries and in the socialist countries of Eastern Europe found it to their benefit to establish multilateral relations, including in the field of industrial co-operation, on a longer term and more varied legal basis. In this way a mechanism for multilateral co-operation is being created through the conclusion of specific agreements and contracts.

67. At present, several types of multilateral industrial co-operation between the socialist countries of Eastern Europe and the developing countries have evolved. Some of them are predominantly based on contracts of a temporary and short-term character, while the others presuppose agreements on co-operation of a developing country with a permanent body of the CMEA or an agreement with the CMEA itself, extending for a longer period. It is possible to identify several forms of multilateral industrial co-operation linked to the multilateral schemes within the CMEA, with co-operation of organizations of two or more socialist countries in rendering economic and technical assistance to developing countries being one of them. By the mid-1970s the organizations of several CMEA member countries had, on a joint basis, constructed 30 projects in Egypt, 15 in Guinea, 13 in India, 12 in Iraq. So far these cases have accounted for a comparatively modest share

in the over-all volume of trade and economic relations, but their role has been growing continually, mostly as a result of the extension of inter-state specialization and co-operation within the CMEA. This kind of multilateral co-operation normally includes assistance by the socialist countries of Eastern Europe to the partner in a developing country in the form of delivery of equipment and technical know-how, research and investment, designing and construction of projects, organization of normal functioning, establishment of market networks, training of personnel, etc. Multilateral co-operation between several socialist and developing countries can produce promising results in many fields, including geological prospecting, construction of key projects in the developing countries as well as in industrial branches and production lines.

68. Another type of multilateral industrial co-operation between the developing countries and the socialist countries of Eastern Europe is represented by joint actions undertaken by organizations of a socialist country and a developing country in the markets of third countries or in assisting another developing country.

69. This kind of co-operation often results from industrial co-operation between socialist countries and developing countries in the creation of new, or in the expansion of existing, capacities of the developing country's national industries as well as from the institution by the partners of a mixed company or a joint enterprise. For example, at the beginning of 1978 an agreement was reached between Brazil and Poland on the establishment of a US $ 500 million (equivalent) joint venture by Siderbras (Brazil) and "Copex" (Poland) to develop coal deposits in Colombia. According to the previous agreement the coal from these deposits will be exported to Brazil. Even this single example of multilateral co-operation which presupposes deliveries of equipment and material from Poland and Brazil to Colombia and at the later stage, flows of coal from Colombia to Brazil and eventually deliveries of some commodities to Poland in payment for the assistance rendered, gives a good idea of the trade generating effect of multilateral industrial co-operation.

70. Certain possibilities for the further expansion of multilateral industrial co-operation between the two groups of countries may emerge through the use of financial facilities granted by the CMEA countries to the developing countries. In this context, of particular interest for the latter may be the special fund to finance programmes of economic and technical assistance to the developing countries, set up within the International Investment Bank in 1974. Its size amounts to one billion transferable roubles with a certain percentage in convertible currencies. The International Investment Bank has now finished the preparation of normative documents on credit operations with countries non-members of the Bank and promoted its activities in establishing and strengthening business contacts with third countries.

71. On the other hand, there exist opportunities for further intensification of industrial co-operation between the developing countries and the socialist countries of Eastern Europe through the utilization of financial resources of some developing countries for the establishment of production capacities in the socialist countries of Eastern Europe with the further possible export of resultant products to third countries. Though this type of co-operation has a very short history, there are a few examples of this kind of deal. Thus Kuwait gave Hungary a $ 40 million credit and Yugoslavia a $ 175 million credit for building the oil pipeline "Adriatika". Negotiations have started between Romania and Kuwait on a proposed $ 1 250 million joint petrochemical complex to be built on Romania's Black Sea coast. The complex will refine Kuwaiti oil with some 75 per cent of the output being used by Romania and the rest exported to other Eastern European countries. In turn, Romania will supply Kuwait with equipment for oil producing and refining. The socialist countries of Eastern Europe use credits in petro-dollars

to establish the production of goods to be exported to the creditor countries. For example, Romania has an agreement under which it will receive a loan from Iran to finance long-term deliveries of goods to this country. Iran also has an agreement with Poland for the construction of several projects with repayment of credits in manufactured goods.

72. Another similar form of co-operation is the joint financing of projects in third countries by the socialist countries of Eastern Europe and some developing countries. For example, under discussion is the joint action of Poland and Kuwait (with the financial participation of the latter), Poland and the Libyan Arab Jamahiriya on the markets of third countries.

73. Both bilateral and multilateral industrial co-operation between developing countries and the socialist countries of Eastern Europe requires the establishment of an appropriate legal and institutional framework. The co-operation mechanism between developing countries and socialist countries of Eastern Europe has an appropriate legal basis. It seems warranted to state that the existing legal basis offers to non-member countries, and in particular to the developing countries fairly flexible and multiple forms of participation, which range from co-operation in individual fields to partial or complete participation in schemes outlined in the Comprehensive Programme, from individual contracts to partial or full participation in the work of CMEA bodies and the international organizations

of socialist countries. The legal basis for non-members to co-operate with the CMEA international economic organizations and associations is to be found in the provisions embodied in the Charter of these organizations.

74. The experience gained in the development of multilateral relations among the developing countries and the socialist countries of Eastern Europe is not very rich so far, but it reveals the tendency towards the establishment of tighter formal relations of the former with the CMEA and specialized organizations of the socialist countries of Eastern Europe. Thus, a number of developing countries, non-members of the CMEA (Yugoslavia, Iraq and Mexico) have institutionalized in the 1960s and 1970s multilateral co-operation with the CMEA taken as a whole through special agreements on co-operation. These countries have in this way supplemented their network of bilateral agreements with a specific new form of agreement in which one of the two signatories is a multilateral body. It should be noted that these countries continue to develop their bilateral relations with each of the socialist countries of Eastern Europe and that the multilateral agreement with the CMEA does in no way infringe or reduce the substance of bilateral relations. The motive for concluding multilateral as well as bilateral agreements with the socialist countries lies in the fact that the multilateral approach tends to open up further possibilities for co-operation and to smooth the running of already existing bilateral relations. Among the countries which have concluded special agreements with the CMEA, Yugoslavia has acquired the widest experience in multilateral co-operation with this organization. In conformity with an agreement concluded with the CMEA in 1964, Yugoslavia takes part in the work of various CMEA bodies on questions of mutual interest. Initially provisions were made for co-operation in the fields of foreign trade, monetary and financial relations, co-operation in the field of science and technology and co-operation on questions of mutual interest within individual specified industrial branches.

With the sphere of relations broadening, new issues, areas or branches were drawn into co-operation so that by now the representatives of Yugoslavia are taking part in the work of some twenty CMEA bodies as against seven in 1965. Yugoslavia or its organizations also acquired membership of several organizations of the CMEA member countries.

75. The combination of bilateral and multilateral co-operation brought about a rapid expansion of trade between Yugoslavia and the CMEA member countries. For instance, in 1971-1975 the mutual deliveries of goods and services reached an equivalent of 8.9 billion roubles (11.8 billion United States dollars), exceeding the level of the previous five-year period approximately 2.5 fold. It is expected that in the period 1976-1980 this figure will reach almost 23 billion roubles (30.3 billion United States dollars).[17] Trade expansion was accompanied by major changes in the structure of Yugoslav exports to CMEA member countries, through a rise in the share of industrial goods in the total volume of deliveries as well as the increase of deliveries due to industrial co-operation, both bilateral and multilateral. More than half of the present volume of Yugoslavia's exports to the socialist countries of Eastern Europe consists of machinery, transport equipment and industrial consumer goods. Ten multilateral agreements on specialization and co-operation between Yugoslavia and the CMEA member countries were operative by 1976. Under agreements on specialization and co-operation in the field of engineering Yugoslavia is specializing in the production of 534 items. In the expansion of Yugoslavia's exports, enterprises set up with economic and technical assistance received from the socialist countries play a considerable part, especially through deliveries of their products on account of repayments for credits obtained from the socialist countries.

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17/ Economicheskoe Sotrudmichestvo Stran-Chlenov CEV, 1976, No. 2, page 27.

76. The agreements of Iraq and Mexico with the CMEA were concluded with due consideration for the specific conditions which prevailed in the co-operation of each of the two countries with the CMEA. Thus, the agreement with Iraq was primarily intended to promote further the already broad, varied and sound trade and economic relations between this country and the CMEA, whereas the agreement with Mexico was the outcome of a mutual desire to set up the framework for the initial impetus for the expansion and diversification of economic co-operation in various fields, including industrial co-operation between the partners, which as yet were only moderately developed.

77. Both the agreements provide for the setting up of mixed commissions to study the possibilities for multilateral co-operation of respective countries with the CMEA in the fields of mutual interest of the partners. In the framework of these commissions a number of working groups dealing with specific branches of co-operation have been established. The first results of the working groups' activity indicate that there are considerable opportunities for the development of the two countries' co-operation with the CMEA. For example, during the first meeting of the working group for the oil and gas industry of the CMEA-Iraq Joint Commission, which was held in 1977, the conclusion was reached by the participating sides that there were wide opportunities for the participation of the CMEA member countries in prospecting and drilling for oil and gas, and in the construction of oil pipelines and refineries in Iraq on a multilateral basis.

78 Many new advantages may be derived by the developing countries from the industrial co-operation involving partners from the third world countries, developed market-economy countries and socialist countries of Eastern Europe, of so-called tripartite industrial co-operation. This form of co-operation has received a new impetus from the political détente between the socialist countries of Eastern Europe and the developed market-economy countries. An important step in this direction has been made by the Conference on Security and Co-operation in

Europe (CSCE). The basic principles of relationships between participating states, as formulated in the Final Act of the CSCE, in view of their universal character, are of a much wider application. Specific reference was made in the Final Act of the Conference to the interests of the developing countries throughout the world which should be taken into account by the participating states. The development of East-West economic relations provides a number of additional opportunities for the expansion of East-South, West-South as well as tripartite links.

79. Tripartite industrial co-operation has begun to develop significantly in recent years. It has developed from, and largely relies on, the experience of bilateral industrial co-operation. The analysis undertaken by UNCTAD has revealed that by 1978 about 200 tripartite industrial co-operation deals have been completed or were under implementation. About one-third of the identified cases of tripartite industrial co-operation involved enterprises of more than three countries.

80. The distribution of effective projects under consideration by industrial activity shows that manufacturing accounts for more than 80 per cent of such projects, with the rest falling within the electric power industry, mining, transport industries, etc. Further, the area of industrial activity covered by tripartite industrial co-operation projects in each developing country is a reflection of specific targets of specialization or of priorities in the industrialization process of the country concerned, which may also reflect particular advantages in terms of natural endowment or degree of industrialization.

81. As well as industrial co-operation involving partners from two groups of countries, tripartite industrial co-operation provides additional opportunities for the development of trade and particularly contributes to the development of markets for exports of various items, including manufactures and semi-manufactures from the developing countries both to the socialist countries of Eastern Europe and to the developed market-economy countries.

82. Concerning the possible future prospects in the development of industrial co-operation among the developing countries and the socialist countries of Eastern Europe, it seems justified to state that this process will evolve along the lines of both bilateral and multilateral relations, with the further expansion of the quantity of developing countries involved in it, as well as with the improvement of the legal and institutional basis to facilitate various forms of industrial co-operation. An additional argument justifying the expectations for the further increase in industrial co-operation arrangements, results from the fact that the achieved level of trade between the two groups of countries in terms of the share this trade occupies in the over-all trade of the partners, cannot be easily raised through the development of traditional trade among the developing and socialist countries. New efforts should be made in all spheres of economic relations between the partners from both groups of countries to promote trade flows in both directions and first of all new initiatives should be undertaken in the area of industrial co-operation.

83. The achievement of this target could be facilitated by the wider dissemination of information on the possibilities of mutual trade, economic, production, scientific and technical co-operation and exchange of the experience gained in the implementation of existing forms of bilateral and multilateral co-operation in relations between the socialist countries of Eastern Europe and both the developing countries and the developed market-economy countries. A more comprehensive approach should be taken by the developing countries and the socialist countries of Eastern Europe with regard to policies pursued in the development of industrial co-operation, as well as in the fields of financing, transfer of technology, marketing activity, etc.

84. An important role in the further development of trade creating industrial co-operation among the developing countries and the socialist countries of Eastern Europe may be played by the activity of respective international organizations, and particularly by UNIDO and UNCTAD.

85. The fourth session of UNCTAD, held in 1976 in Nairobi, underlined once more the importance of trade relations among countries having different economic and social systems and specifically between the developing countries and the socialist countries of Eastern Europe. Resolution 95 (IV) adopted by the Conference, confirming the mandate given to UNCTAD in previous General Assembly resolution 1995 and UNCTAD resolutions 15 (II) and 53 (III), put forward some new directions in this field and recommended the developing countries and the socialist countries to make additional efforts aimed at extending their mutual trade and economic co-operation. In particular, the resolution recommended the socialist countries of Eastern Europe to take steps to continue to co-operate in establishing production capacities in the developing countries and to focus their efforts in the sphere of economic and technical assistance to the developing countries on the development of production forces, to co-operate with interested developing countries with a view to assisting them in arriving at a comprehensive solution

of major economic tasks and to join efforts in resolving these tasks, particularly in areas where complementarity in economic structures is apparent; assist interested developing countries in the development of their national resources, etc. Special reference was made in the resolution to the problems of multilateral economic co-operation among the developing countries and countries members of the CMEA.

86 Pursuant to this resolution, which has a long-standing character, the UNCTAD secretariat has already undertaken a number of actions with a view to fostering the development of economic co-operation among developing countries and socialist countries of Eastern Europe on a bilateral and multilateral basis. One such action was the holding of an intergovernmental group of experts on trade opportunities in favour of developing countries resulting from the implementation of various multilateral schemes by the CMEA member countries. This group was held in October/November 1977 in Geneva. The UNCTAD secretariat had prepared for this group a number of studies which contained a profound analysis of the modern stage of the multilateral co-operation between the CMEA and its member countries and the developing countries, as well as some direction which might be followed by the participants in the further development of this process.

87. It has been underlined in the said studies that co-operation between socialist and developing countries is proceeding against a specific background. Alongside distinction in the levels of development it is a sphere of manifestation of distinctions associated with the difference between the forms of ownership of the means and instruments of production, systems of administration and national economic regulation (planned in socialist countries and "mixed" in many developing countries, which stems from their multisectoral economies), the comparatively minor proportion of partners in their trade with each other, the absence of a long-standing record of co-operation and an inadequate knowledge of the conditions of each other's economic scene and potential.

88. Due to the action of the above factors, the successful expansion of multilateral co-operation between the said groups of countries, which is pivoted on principles of reciprocal advantage and consideration of the specific interests of the developing countries, cannot be ensured by mechanical copying of economic instruments which operate in the market-economy system. Apparently, this object is to be attained by the creation of a specific mechanism of economic co-operation between countries with different levels of development and different social structures, which reflects the distinctions of their socio-economic and political structure and their position in the world economy. In other words, both sides face the necessity of taking a set of macro- and micro- economic measures that would create a situation conducive to large-scale joint activity, continued perfection of the legal foundation and institutional mechanism of co-operation and reciprocal adaptation of national economic systems.

89. A considerable role could be played by UNCTAD in the dissemination of information to the potential partners on the possibilities of further developing various forms of economic co-operation between the two groups of countries. In this respect, the technical assistance project in the field of trade with th socialist countries, carried out in 1975/76 by UNCTAD in co-operation with UNDP and the United Nations regional commissions, could be mentioned. More than 100 senior officials from 63 developing countries participated in this project, the objectives of which were to enable them to broaden and deepen their knowledge of the trade policies, modalities and practices in the socialist countries, and identify practical opportunities for further promoting mutual trade. This project was also useful from the point of view of furthering other forms of economic co-operation between socialist and developing countries, including industrial co-operation

90. At present a similar new technical assistance project is being initiated by UNCTAD, with the main target of fostering the economic development of developing countries through the expansion of their trade and economic co-operation with the socialist countries of Eastern Europe.

91. In its activities aimed at the development of trade and economic relations between socialist countries of Eastern Europe and developing countries, UNCTAD is ready to co-operate with other United Nations bodies. As concerns the field of industrial co-operation between these two groups of countries, it seems that the strengthening of contacts between UNCTAD and UNIDO could facilitate the further development of this co-operation.